Department of Telecommunications and Energy
Record Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-35

Witness: **William L. Barschdorf, Jr.**
Date: **May 28, 2004**

DTE-RR 1: Provide a description of the cost/benefit analysis conducted by the Company that supported the conclusion that it was not cost-effective for the Company to issue a request for proposal for the management services performed by NEGM in connection with previous Canadian supply contracts.

Response: Berkshire was aware of the Department's directive with respect to NEGM's services stated in The Berkshire Gas Company, D.T.E. 02-56 (2002), namely to pursue a competitive solicitation to determine what other offerings it could receive for the services provided by NEGM or show that there was no other entity capable of providing the type of services provided by NEGM. Berkshire fully and carefully considered this directive of the Department. First, Berkshire addressed the nature of services provided by NEGM, the quality of NEGM's performance and the availability of alternative service providers. NEGM provided a wide range of services for Berkshire and the other LDC's served under the EnCana agreements and, prior to that, under the so-called Boundary contracts. NEGM had developed a general understanding of the Canadian and American natural gas markets, the requirements and procedures associated with importing natural gas, transporting natural gas and the resale of natural gas by participating LDC's. NEGM had also developed highly specialized familiarity with each LDC's operational, reporting and planning requirements and available transportation resources. This specialized expertise facilitated prompt and efficient nominations, timely sales and purchases of surplus supply and accurate billing and reporting. Berkshire, which monitors available service providers through a variety of sources including industry groups, trade journals, meeting with potential service providers, participation in regulatory proceedings and communication with its affiliates, determined that it was unlikely that any other entity could provide the same high quality specialized service as NEGM, at least during the initial months of this relatively short engagement. The Company nevertheless continued its analysis.

The Company recognized that its total charges to NEGM for a wide range of high quality services were small. Total monthly charges for administrative services as well as the cost of negotiating and securing necessary approvals for the underlying sales agreement, were relatively small. See IR DTE 1-10; IR DTE 1-15. Berkshire concluded that any solicitation structure to evaluate services currently provided by NEGM should reflect the fact that total costs for the required service (as well as potential savings opportunities) were low and also the limited available alternative service providers. Thus, minimal costs, if any, should be applied to such process otherwise the process would surely result in "net" negative benefits for customers. For example, even minimal outside costs

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for consultants or attorneys could exceed the total cost due under the NEGM agreement.

Berkshire ultimately elected to pursue a two-stage process. First, the Company negotiated with NEGM seeking some additional value. These efforts were in parallel with other efforts of KeySpan described below and largely focused upon costs. Second, the Company determined that it was appropriate to monitor a comparable competitive solicitation by KeySpan. Berkshire understood that KeySpan would be pursuing a competitive solicitation which would be reviewed closely by the Department. Thus, Berkshire could benefit from these two levels of competitive review. If KeySpan elected to retain NEGM (and such decision was approved by the Department), Berkshire believed that it would be reasonable to rely upon the results of such reviews and retain NEGM on comparable terms. Indeed, securing comparable terms would likely result in substantial benefits given the relatively small purchase pursued by Berkshire. Alternatively, if KeySpan selected an alternative bidder, Berkshire anticipated that NEGM would be unlikely to serve Berkshire on a stand-alone basis. Berkshire might at that time negotiate with such alternative vendor or initiate a company-specific solicitation.

In sum, Berkshire had serious reservations regarding the availability of any comparable alternatives to NEGM. Berkshire therefore sought to secure the benefits of an alternative solicitation at no cost to customers and which Berkshire understood to be subject to substantial Department scrutiny given the affiliate relationship between KeySpan and NEGM. This cost-effective approach fully addressed the Department's directive and, most importantly, secured a cost-beneficial resource and service for the benefit of customers. Berkshire did not incur costs or expenses that would have been necessary for such a process while, at the same time, avoiding devoting inordinate resources to such a limited savings opportunity.